

WHITMAN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The County Should Develop And Implement Internal Controls Over Payroll

Our audit of the county's payroll system revealed the following internal control weaknesses:

- a. There is inadequate segregation of duties. The payroll clerk makes all additions, deletions, and changes to individual employee masterfile information; inputs payroll detail from time records; processes monthly payroll; and batches payroll warrants and output reports for distribution to departments.
- b. There is no review of the work performed by the payroll clerk. Computer input is not independently reviewed for accuracy, payroll journals are not consistently reviewed by department heads, employee listings are not reviewed by human resources, and voucher approval and direct deposit registers are not reviewed or approved by the auditor or commissioners.
- c. There is a lack of uniform payroll policies and procedures. Each department operates autonomously with regard to the type of time records utilized and the submission of time records to the payroll clerk.
- d. There is no review and approval of department head time records.
- e. There is no cross training for the duties of the payroll clerk and no written procedures as to the required tasks to be performed.

These conditions were reported during the prior audit. The county has plans to improve the controls over payroll, but employee turnover in the auditor's office has affected the timeline for these improvements and no significant progress has been made in the areas noted.

We consider the conditions noted above to be material weaknesses in the payroll internal control system. Inadequate systems of internal controls present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or allow inadvertent errors to occur and not be detected in a timely manner.

We recommend the county develop and implement internal controls over payroll which:

- Segregate the personnel and payroll processing functions.
- Provide for review of the payroll clerk's work.
- Provide for uniformity in payroll procedures across all departments.
- Require review of department head time records

- Ensure county payroll could be processed in the absence of the payroll clerk

2. The County Should Adhere To Requirements Related To The Documentation And Authorization Of Claims

During our review of county claims we noted the following weaknesses:

- a. Approximately 40 percent of the claims selected for review did not contain original vendor invoices, receipts or other original support to validate the claim. Many of the exceptions related to expenditures charged to credit cards and employee reimbursement requests. We noted the following inadequate support:
 - Photocopied receipts or invoices.
 - Payments from vendor statements with no supporting invoices or receipts.
 - Hand written listing of meals or other travel expenses with no supporting receipts and, in some instances, no indication of the vendor paid.
 - Meal receipts and credit card slips which contained no detail of the items purchased and no indication of the business purpose.
- b. Approximately 30 percent of the claims reviewed did not contain proper authorization and approval. We noted the following types of inadequate approval:
 - Department heads approved their own personal reimbursements and travel claims with no independent review.
 - Claim form "payment" certifications which were not signed or dated.
 - Claim form "sufficient budget" certifications which were not signed.
 - Travel reimbursements with no itemized travel expense voucher or signed certification.
- c. We noted instances of vendor statements with credit balances where it appeared payments were either applied to inappropriate accounts or invoices were paid in duplicate.
- d. One instance was noted where no competitive bids were received for a purchase in excess of \$20,000. The authorizing department head maintains that the purchase had a single source of supply but there was no documentation to support this exception to the bid requirements. Since the purchase was for a used vehicle, we do not consider this clearly and legitimately limited to a single source without documentation of the process used to acquire the vehicle.
- e. The county has no formal process to uniformly address instances of lost receipts or other missing support for claims. Since these situations can arise in any organization, procedures for providing substitute documentation and approval of these claims should be considered and included as part of official policies and procedures.

RCW 42.24.080 states in part:

All claims presented against any county . . . by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose shall be audited, before payment, by an auditing

officer elected or appointed . . . Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer

RCW 42.24.090 also states in part:

No claim for reimbursement of any expenditures by officers or employees of any municipal corporations or political subdivision of the state for transportation, lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in a detailed account . . .

All claims authorized under this section shall be duly certified by the officer or employee submitting such claims on forms and in the manner prescribed by the state auditor.

RCW 43.24.115 further states in part:

. . . (2) If a charge card is issued for the purpose of covering expenses relating to authorized travel, upon billing or no later than thirty days of the billing date, the officer or employee using a charge card issued under this section shall submit a fully itemized travel expense voucher. . . .

RCW 43. 24.150 states in part:

On or before the fifteenth day following the close of the authorized travel period for which expenses have been advanced to any officer or employee, he shall submit to the appropriate official a fully itemized travel expense voucher, for all reimbursable items legally expended

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments . . .

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees and other persons.

The accounts shall show the receipt, use, and disposition of all public property . . . and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction (Emphasis ours.)

RCW 43.19.1906 states in part:

Insofar as practicable, all purchases and sales shall be based on competitive bids . . . However, formal sealed bidding is not necessary for:
. . .

(3) Purchases which are clearly and legitimately limited to a single source of supply and purchases involving special facilities, services or market conditions, in which instances the purchase may be best established by direct negotiation

Noncompliance with the stated requirements occurred because the county had no formal policy to require adherence to the requirements and accurate, comprehensive completion of county forms was not a priority of county management. Duplicate payments could occur because payments were made from photocopies and there were no controls to detect duplicate vendor invoice numbers.

A travel policy was adopted as part of the county code in November 1995 and revisions were approved which became effective September 3, 1996. Credit card and claims code, and policies and procedures as to the proper completion of related county forms were also approved for implementation as of the same date. Due to the timing of approval and implementation, we were unable to determine that these new policies will be adhered to by county personnel.

Without proper documentation and authorization of claims, the county cannot be assured that all expenditures paid from county funds are just, true, and unpaid obligations of the county. Errors and irregularities could also occur without being detected in a timely manner, if at all. We recommend that the county adhere to requirements related to the documentation and authorization of claims. This includes, but is not limited to the following:

- Original vendor invoices, receipts and other independent supporting documentation for all claims with the exception of unusual circumstances where documentation cannot be obtained.
- Indication of the items purchased and business purpose for all vendor or credit card receipts that do not provide adequate detail.
- Indication of the business purpose, parties involved, vendor name, dates, and times for all travel related expenses.
- Independent review of all personal reimbursement and travel claims submitted by department heads or officials.
- Submission of a fully itemized, certified travel expense voucher by all employees and officials for travel costs incurred by personal expense, travel advance or county credit card.
- Completion of all authorizing and approving signature lines on county claim forms and travel expense vouchers.
- Documentation of the procedures performed to support exceptions to bid law requirements.
- Development and implementation of controls to detect duplicate vendor payments.
- Approval of a uniform procedure to provide substitute documentation and approval for claims with lost receipts or in other instances where adequate independent support cannot be obtained.

3. The County Should Improve Internal Controls Over Imprest Accounts And Other Cash Deposits

During our review of various county bank accounts and cash deposits, we noted the following conditions:

- a. The county cannot provide a comprehensive list of established bank accounts.
- b. Some existing imprest accounts are not authorized by resolution of the county commissioners.
- c. Some imprest accounts are established from undeposited receipts instead of by treasurer's check or warrant.
- d. The year-end balances of some bank accounts and trust deposits are not included in the county's accounting records or financial statements.
- e. The revenue and expenditure activity of some bank accounts and trust deposits is not reflected in the county's accounting records.
- f. Disbursements from imprest accounts are not always supported by original receipts or other original supporting documentation or approved by department heads.
- g. Travel advances are made from imprest accounts which have not been authorized for that specific purpose.
- h. Travel reimbursements paid from imprest accounts are not always supported by a fully itemized travel expense voucher with supporting original vendor invoices or receipts. In many instances, meal receipts contain no information related to the persons attending or the business purpose.
- i. Disbursements from the Advance Travel Fund are made to persons other than officials and employees of the county.

RCW 42.24.090 states in part:

No claim for reimbursement of any expenditures by officers or employees of any municipal corporation or political subdivision of the state for transportation, lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in a detailed account . . .

All claims authorized under this section shall be duly certified by the officer or employee submitting the claims on forms and in the manner prescribed by the state auditor.

RCW 42.24.120 states in part:

. . . the legislative body of a municipal corporation or political subdivision wishing to make advance payments of travel expenses to officials and employees . . . will establish . . . a revolving fund to be used solely for the purpose of making advance payments of travel expenses.

Budgeting, Accounting and Reporting System (BARS) manual, Volume 1, Part 3, states in part

Chapter 1, page 1:

... A governmental accounting system must make it possible both; (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles

Chapter 1, pages 22 and 23:

... Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination . . .

Transactions and other significant events are to be promptly recorded and properly classified

Chapter 3, pages 23 and 24:

The following are minimum requirements for the establishment and operation of petty cash accounts.

1. The governing body must authorize each petty cash account . . . This applies also to all subsequent increases or decreases in the imprest amount . . .
5. The imprest amount may be established by treasurer's check or in double-entry systems by warrant . . .
6. The governing body must include the authorized amount of all such petty cash in the local government's balance sheet.
7. If petty cash is disbursed, it must be replenished at least monthly by warrant or check payable to the custodian. The replenishment should be subject to the same review and approval as processed invoices. The replenishment must be by voucher with the appropriate receipts attached . . . At the time of replenishment, the custodian should ensure that the balance remaining in petty cash, together with the amount of the replenishment voucher, equals the authorized imprest amount

These conditions occurred because the county does not have written procedures for the establishment and control of bank accounts and other cash deposits. There also appears to be a lack of awareness by key financial personnel in county departments as to the requirements related to the establishment and operation of imprest accounts.

The absence of adequate internal controls over imprest accounts and other cash deposits could provide the opportunity for individuals to perpetrate and conceal fraudulent activities and increases the risk that these and other errors and/or irregularities could occur and not be detected in a timely manner, if at all. In addition, these control weaknesses result in inaccurate and incomplete reporting in the county financial statements. We determined that the misstatements to the financial statements were not material to the financial statements as a whole.

We recommend the county improve internal controls over imprest accounts and other cash

deposits. This includes, but is not limited to the following:

- Determining all bank accounts and other cash deposits maintained by the county.
- Determining that all accounts and deposits have been approved by the county commissioners and are accurately reported in the financial statements.
- Adopting procedures to ensure that all key financial personnel of the county are aware of the requirements related to establishing and operating imprest accounts and cash deposits.

4. The County Should Improve Controls Over Public Works Materials Inventory

Our audit of the county's public works equipment rental accounts disclosed the county does not have a perpetual inventory system to account for the purchase and use of county road materials. Without this system, the county is unable to reconcile differences between physical counts and recorded materials account balances, thereby increasing the risk of undetected error and irregularities.

The *Budgeting, Accounting, and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 1, page 17 states in part:

6. Access to and Accountability for Resources . . . accountability for the custody and use of resources is to be assigned and maintained. Periodic comparisons shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset

This condition was noted during the prior audit. The county intends to improve controls over public works materials inventories, but employee turnover in the public works department has affected the timeliness of the required improvements and no significant progress has been made in this area.

We recommend the county implement a perpetual materials inventory system. Any differences between the inventory system and physical counts should be investigated and explained.

5. The County Assessor Values Real Property Significantly Below True And Fair Value

During our audit of the assessor's office, we noted that the Department of Revenue indicated that the county had a 1995 real property ratio of 65.7 percent. This ratio was the aggregate of the following:

Real Property	67.28%
Current Use (Open Space) Improvements	78.81%
Current Use (Open Space) Land	58.41%

The ratio represents the Department of Revenue's comparison of assessed valuation and market valuation within the county. While it appears that all properties are placed on the tax rolls, tax levy rates are not being applied to the calculated real property undervaluation of \$528,529,018 as detailed below.

	<u>Assessed Valuation</u>	<u>Market Valuation</u>	<u>Under Valuation</u>
Real Property	\$672,603,740	\$999,708,294	\$327,104,554
Current Use (Open Space) Improvements	89,497,640	113,561,374	24,063,734
Current Use (Open Space) Land	249,178,170	426,601,900	<u>177,423,730</u>
			<u>\$528,592,018</u>

The county's past and current revaluation practices have resulted in an overall real property assessment level significantly below market value which has negatively impacted taxing districts in Whitman County and caused erosion in uniformity and fairness of real property assessments.

In an effort to take steps to remedy the situation, county officials met with representatives from the Department of Revenue in February 1996 and developed a four-year plan to completely revalue and inspect all properties in the county. The new revaluation schedule is to be implemented for assessment years beginning in 1997. As a preliminary increase, the assessed valuation for all properties was increased 3½ percent for assessment year 1996.

The Legislature has made the following declaration of policy regarding valuation of property for tax purposes:

RCW 84.41.010 states:

Declaration of policy. Recent comprehensive studies by the legislative council have disclosed gross inequality and nonuniformity in valuation of real property for tax purposes throughout the state. Serious nonuniformity in valuation exists both between similar property within the various taxing districts and between general levels of valuation in the various counties. Such nonuniformity results in inequality in taxation contrary to standards of fairness and uniformity required and established by the Constitution and is of such flagrant and widespread occurrence as to constitute a grave emergency adversely affecting the state and local government and the welfare of all the people.

Traditional public policy of the state has vested large measure of control in matters of property valuation in county government, and the state

hereby declares its purpose to continue such policy. However, present statutes and practices thereunder have failed to achieve the measure of uniformity required by the Constitution; the resultant widespread inequality and nonuniformity in valuation of property can and should no longer be tolerated. It thus becomes necessary to require general revaluation of property throughout the state.

Under RCW 84.41.090, county assessors are required to value property in accordance with standards established by RCW 84.40.030 and Department of Revenue rules, regulations, and manuals.

RCW 84.40.030 states in part:

All property shall be valued at one hundred percent of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law.

Failure to comply with these requirements may result in action by the Department of Revenue or the County Prosecuting Attorney.

RCW 84.41.120 provides in part as follows:

. . . Whenever it appears to the department of revenue that any assessor has failed to comply with any of the provisions of this chapter relating to his duties or the rules of the department of revenue made in pursuance thereof, the department of revenue, after a hearing on the facts, may issue an order directing such assessor to comply with such provisions of this chapter or rules of the department of revenue. Such order shall be mailed by registered mail to the assessor at the county court house. If, upon expiration of fifteen days from the date such order is mailed, the assessor has not complied therewith or has not taken measures that will insure compliance within a reasonable time, the department of revenue may apply to a judge of the superior court or court commissioner of the county in which such assessor holds office, for an order returnable within five days from the date thereof to compel him to comply with such provisions of law or of the order of the department of revenue or to show cause why he should not be compelled so to do. Any order issued by the judge pursuant to such order to show cause shall be final. The remedy herein provided shall be cumulative and shall not exclude the department of revenue from exercising any powers or rights otherwise granted.

RCW 84.08.030 provides in part as follows:

The department of revenue shall examine and test the work of county assessors at any time . . . and if it shall ascertain that any taxable property is . . . not assessed or valued according to law, it shall bring the same to the attention of the assessor of the proper county in writing, and if such assessor shall neglect or refuse to comply with the request of the department of revenue . . . to correct such incorrect assessment or valuation the department of revenue shall have the power to prepare a supplement to such assessment list, which supplement shall include . . . all corrections required to be made . . .

RCW 84.09.040 provides as follows:

Every county auditor, county assessor and county treasurer who in any case refuses or knowingly neglects to perform any duty enjoined on him by this title, or who consents to or connives at any evasion of its provisions whereby any proceeding herein provided for is prevented or hindered, or whereby any property required to be listed for taxation is unlawfully exempted, or the valuation thereof is entered on the tax roll at less than its true and taxable value, shall, for every such neglect, refusal, consent or connivance, forfeit and pay to the state not less than two hundred nor more than one thousand dollars, at the discretion of the court, to be recovered before any court of competent jurisdiction upon the complaint of any citizen who is a taxpayer; and the prosecuting attorney shall prosecute such suit to judgment and execution.

The failure to value all real property at its true and fair value creates an inequality in taxation, violates state law and may result in significant loss of annual revenue to the taxing districts of Whitman County. In addition, the equalization process for the state school levy results in a reduction in tax revenue for the junior taxing districts.

We recommend that the Whitman County Assessor value all real property at 100 percent of its true and fair value in money and assess on the same basis. We also recommend that the Department of Revenue and the Whitman County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances.

6. Controls At The Whitman County Chemical Dependency And Mental Health Center Should Be Improved

During our review of cash receipting and client billing at the Whitman County Chemical Dependency and Mental Health Center (the Center), we noted the following internal control weaknesses:

- Client Accounts Receivable

The Center does not maintain a control account for accounts receivables. The recorded receivable balance at December 31, 1995, was approximately \$100,000. Since credits and Medicaid payments and receivables are not adequately documented and accounted for as described below, we are unable to determine the validity of the recorded balance.

Courtesy discounts for third party insurance payments are calculated by a computer program based on a formula applied to the client account during initial account set up. These credits are not tracked on the adjustments log reflected in the monthly accounts receivable report or reviewed for propriety.

Preferred provider credits are entered to patient accounts manually. These credits are not tracked on the adjustments log reflected in the monthly accounts receivable report or reviewed for propriety.

Payments received from Medicaid are not properly reflected in the client receivables. The Center operates as a Prepaid Health Plan (PHP) and is reimbursed by Medicaid on a monthly allotment based on total clients services and not on a patient by patient basis. The Medicaid receivable is growing monthly and individual client balances are overstated as no credits are recorded for payments received. Although Center personnel indicate that Chemical Dependency is owed no money from Medicaid, a \$16,808 receivable is recorded in the Center subsidiary detail report and in the balance sheet receivables of the county.

Receivable aging information is reviewed on individual client bills and no system-wide accounts receivable aging report is prepared. There is no way to determine from this procedure that all accounts of the Center are reviewed for delinquent payments.

- Harvest House

Background:

The Center operates a small cafe and thrift store which is operated by the Center clients and monitored by Center staff. Meals are provided for clients, guests and Center staff. The thrift shop sells donated items such as housewares and knickknacks which are priced by clients.

Currently the clients, guests, and Center staff are allowed to charge their meals. Some individuals deposit money in advance to pay for the cost of their charged meals, but others carry a credit balance and owe the Harvest House for their meals. The detail of individual accounts is maintained in a manual ledger card system.

Receipting:

Harvest House kitchen staff does not track the number of meals sold. A slip of

paper with the name and cash or charge sale is used to document the sale of a meal. These slips of paper do not indicate a date or whether the payment was made by cash or a check. Since there are no official prenumbered receipts issued and no total meal count, we cannot determine that all meals served are accounted for and properly documented as cash sales or entries to customer ledger cards.

The cafe operates out of a cash box that contains a small amount of cash to make change. The amount of change varies from day to day depending on the composition of the cash in the cash box at the end of each day. The Harvest House Cafe is not using an authorized change fund and change is taken from daily receipts.

The Harvest House Thrift Shop operates in much the same way with no inventory of items received or sold, no official, prenumbered receipts, and no authorized change fund.

Receivables:

There is no formal billing system to ensure that charges are paid in a timely manner. Individuals are notified monthly of their outstanding balance verbally or in a handwritten note which is not on a prenumbered official form.

There is no control account for the ledger system that ensures charges made and payments received are accurately recorded and receivable balances have been accurately calculated. These receivables are not recorded in the accounting records or financial statements of the county.

- Bank Accounts and Other Imprest Funds

The Center maintains a custodial payee account at a local bank. This account is used to account for the deposit and disbursement of Alcohol and Drug Addiction Treatment Support Act (ADATSA) funds. The receipts related to ADATSA are state grant moneys. This account has not been authorized by the county commissioners, and the transactions and bank balance of this account are not included in the official accounting records or financial statements of the county.

The Center maintains an imprest account that operates as a "loan fund" for clients. One hundred dollars of the authorized imprest fund for the Harvest House has been set aside for this purpose. This is not an appropriate use of an imprest fund which must not be used for personal cash advances or other I.O.U.s. The account is not operated, reconciled or replenished as required.

Budgeting, Accounting and Reporting System (BARS) manual, Volume 1, Part 3, states in part:

Chapter 1, page 1:

... A governmental accounting system must make it possible both; (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles ...

Chapter 1, pages 22 and 23:

... Internal control systems and all transactions and other significant

events are to be clearly documented, and the documentation is to be readily available for examination . . .

Transactions and other significant events are to be promptly recorded and properly classified . . .

Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority . . .

Chapter 3, pages 23 and 24:

The following are minimum requirements for the establishment and operation of petty cash accounts.

1. The governing body must authorize each petty cash account . . . This applies also to subsequent increases or decreases in the imprest amount . . .
5. The imprest amount may be established by treasurer's check or in a double-entry system by warrant . . .
6. The governing body must include the authorized amount of all such petty cash in the local government's balance sheet . . .
9. The fund may not be used for personal cash advances even if secured by check or other I.O.U.s.

Many of these conditions were noted during prior audits and continue to exist because department personnel are not aware of all requirements that apply to their job responsibilities and county management is not apprised of all financial activities that operate in individual departments.

Due to the conditions noted above, some revenues, expenditures and assets of the Center are not reported in the county financial statements. Further, missing or unsupported entries to departmental accounts receivable subsidiary records result in unreliable balances. We determined that the misstatements to the financial statements are not material to the financial statements as a whole. Additionally, these internal control weaknesses could allow errors or irregularities to occur and not be detected in a timely manner, if at all.

We recommend the Center improve controls related to client receivables, Harvest House operations and bank accounts, and other imprest funds.

7. The County Sheriff's Department Should Establish And Implement Adequate Controls Over Cash Activities

a. General Cash Receipts and Disbursements

Official county receipts are not issued for all transactions. We could not determine the total receipts received by the chief civil deputy or if all receipts are deposited with the treasurer. Official prenumbered receipts should be issued for all moneys received by the chief civil deputy or jail prior to forwarding them to the treasurer for deposit.

Commissary expenditures are processed through the treasurer's checking account and support for these transactions is not always adequate. There is no review or approval process for these expenditures as the treasurer's office receives no claim form or vendor support for the expenditures. The treasurer's check is written based on a signed authorization form from the chief civil deputy. During our review of the support file for commissary expenditures, we noted photocopies of invoices or receipts being used to support transactions and other instances where no invoices or receipts exist at all. These expenditures should be paid from the sheriff's revolving fund or by county warrant if not minor disbursements requiring immediate payment. All commissary expenditures should be supported by original vendor invoices or receipts. In addition, bail deposits receipted in the jail are forwarded to the chief civil deputy who deposited them with the treasurer for disbursement to the appropriate jurisdiction. These receipts should be forwarded directly to the court administrator. Disbursements processed through the treasurer's checking account for bail and other sheriff's department items exceeded \$53,000 during 1995.

The DARE program maintains a bank account for donations which is not accounted for in the county accounting records or financial statements. The county pays the salary for a full-time DARE officer and identifies the program as part of the services provided by the county. Even though a separate non-profit organization has been created, public perception is that the program is supported and approved by the county and therefore, funds generated by the program should be reported as county revenues and expended under budget authority and authorization of the county. In addition, the bank account should be authorized by the county commissioners or closed with the donations being deposited directly with the county treasurer.

b. Confidential Funds

The interlocal drug account and Drug Task Force Fund do not operate as imprest funds as required. The moneys are held in separate bank accounts with no established balance. When cash is disbursed, the account is not restored to its original balance by warrant drawn and charged to the applicable operating fund.

These funds are not authorized by resolution of the county commissioners.

Expenditures made from the funds are not supported by vendor invoices or receipts from the receiving officer or informer.

The funds are not reconciled to the related bank statements.

The activity and year-end bank balance of the Drug Task Force Fund is not recorded in the accounting records or financial statements of the county.

We cannot determine if these funds are used for the necessary and reasonable purpose of the program for which they are established because support for expenditures was not available for audit.

c. Inmate Personal Funds

The moneys on hand at year end are not accounted for through the trust funds in the county accounting records or financial statements.

Checks received from family or friends for deposit to inmate accounts are co-endorsed by the facilities commander and replaced with cash to be deposited on behalf of the inmate. Funds received by the county are not deposited intact and the facilities commander became personally liable at the bank for any nonsufficient funds items.

Adequate documentation is not maintained for some withdrawals from inmate funds for use in the commissary. The appropriate use of all funds held in trust cannot be determined.

Moneys withdrawn from inmate accounts for the payment of county work release fees are not reviewed by the inmates to substantiate the number of days recorded as worked or reconciled to jail records. We cannot determine that all fees owed by inmates for work release fees are received and deposited.

RCW 42.24.080 states in part:

All claims presented against any county . . . by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose shall be audited, before payment, by an auditing officer elected or appointed . . . Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments . . .

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees and other persons.

The accounts shall show the receipt, use, and disposition of all public property . . . and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction (Emphasis ours.)

Budgeting, Accounting and Reporting System (BARS) manual, Volume 1, Part 3, states in part:

Chapter 1, page 1:

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financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles . . .

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. . . Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination . . .

Transactions and other significant events are to be promptly recorded and properly classified . . .

Chapter 3, page 23:

The following are minimum requirements for the establishment and operation of petty cash accounts.

1. The governing body must authorize each petty cash account . . . This applies also to all subsequent increases or decreases in the imprest amount . . .
6. The governing body must include the authorized amount of all such petty cash in the local government's balance sheet.
7. If petty cash is disbursed, it must be replenished at least monthly by warrant or check payable to the custodian. The replenishment should be subject to the same review and approval as processed invoices. The replenishment must be by voucher with the appropriate receipts attached . . . At the time of replenishment, the custodian should ensure that the balance remaining in petty cash, together with the amount of the replenishment voucher, equals the authorized imprest amount.

Chapter 12, page 1:

. . . Confidential expenditures are subject to appropriation by the municipality's governing body. The governing body must assure that the controls over disbursements are adequate to safeguard against misuse of such funds. When the funds are replenished, legislative approval should be based on a finding that the expenditures were necessary and reasonable for proper and efficient administration of the program under which they were used.

The funds authorized will be established in an imprest fund. The BARS manual Accounting Procedures Section of Petty Cash, Chapter 3. E, prescribes the minimum requirements for the establishment and operation of and imprest fund. In addition to all those requirement the following apply: . . .

- c. The custodian shall receive from the agency or officer authorized to make a confidential payment, a receipt for cash advanced to him for such purposes.
- d. The agent or officer shall receive from the informer a receipt . . .

These conditions exist because department personnel are not aware of all requirements that apply to their job responsibilities and county management is not apprised of all financial activities that operate in individual departments.

Inadequate systems of internal control could present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or allow errors or irregularities to occur and not be detected in a timely manner, if at all. In addition, these conditions result in revenues, expenditures, and assets of the sheriff's department not being reported in the county financial statements. We determined that the misstatements to the financial statements are not material to the financial statements as a whole.

We recommend the county sheriff's department establish and implement adequate controls over cash activities.

WHITMAN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. The County Should Fully Integrate Grant Accounting In The General Accounting Records

The county's accounting system does not adequately identify the use of grant funds. Expenditures reported in requests for reimbursement prepared at the department level may not agree to the expenditures recorded in the centralized accounting system.

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting Systems* (BARS) manual which states in Volume 1, Part 3, Chapter 5:

The U. S. Office of Management and Budget (OMB) Circular A-128 *Audits of State and Local Governments*, established many specific audit requirements. Those requirements, in turn include or necessitate the following accounting procedures.

1. Grant accounting must be integrated with the recipient's general accounting records. Claims for reimbursements or advances are supportable by the books and records.

OMB Circular A-87, *Cost Principles for State and Local Governments*, Attachment A, Part C. 1. "Factors affecting allowability of costs" states in part:

To be allowable under a grant program, costs must meet the following general criteria:

- f. Not be allocable to or included as a cost of any other federally financed program in either the current or a prior period.

Without integrated grant accounting, the county is unable to assure that costs are not double billed or cross charged to more than one grant or that the centralized accounting records will agree to the departmental grant records.

This weakness was reported in the prior audit. Although the county has revised account coding to allow project codes for individual grant programs, the new system has not been implemented uniformly across all departments within the county.

We recommend the county fully integrate grant accounting in the general accounting records.